

**HULING COVE HOUSING CORPORATION
LEWES, DELAWARE**

**REPORT ON AUDIT OF FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

JUNE 30, 2008 AND 2007

HULING COVE HOUSING CORPORATION

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INDEPENDENT AUDITORS' REPORT

September 19, 2008

Board of Directors
Huling Cove Housing Corporation
Lewes, Delaware

We have audited the accompanying statements of financial position of Huling Cove Housing Corporation (a non-profit organization) as of June 30, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Huling Cove Housing Corporation as of June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2008 on our consideration of Huling Cove Housing Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental information shown on pages 11-21 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Barbacane Thornton & Company
BARBACANE, THORNTON & COMPANY

HULING COVE HOUSING CORPORATION
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 59,398	\$ 6,158
Accounts receivable	56	471
TOTAL CURRENT ASSETS	<u>59,454</u>	<u>6,629</u>
OTHER ASSETS		
Tenant security deposits	19,181	20,693
Escrow deposits	69,779	72,353
TOTAL RESTRICTED DEPOSITS AND RESERVES	<u>88,960</u>	<u>93,046</u>
CAPITAL ASSETS		
Land, construction in progress, building and equipment	3,825,110	2,692,619
Less: accumulated depreciation	<u>(2,180,030)</u>	<u>(2,085,929)</u>
NET CAPITAL ASSETS	<u>1,645,080</u>	<u>606,690</u>
TOTAL ASSETS	<u><u>\$ 1,793,494</u></u>	<u><u>\$ 706,365</u></u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 71,565	\$ 14,343
Accrued payroll	4,009	3,716
Interest payable	-	9,038
Accrued vacation and sick pay	24,381	22,463
Current maturities of long - term liabilities	-	104,541
TOTAL CURRENT LIABILITIES	<u>99,955</u>	<u>154,101</u>
LONG-TERM LIABILITIES:		
Tenant security deposits	19,181	20,693
Note payable	2,296,160	216,367
Mortgages payable, net of current maturities	-	1,257,572
TOTAL LONG-TERM LIABILITIES	<u>2,315,341</u>	<u>1,494,632</u>
TOTAL LIABILITIES	2,415,296	1,648,733
NET DEFICIT	<u>(621,802)</u>	<u>(942,368)</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,793,494</u></u>	<u><u>\$ 706,365</u></u>

The accompanying notes are an integral part of these financial statements.

HULING COVE HOUSING CORPORATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
RENT REVENUES		
POTENTIAL RENT REVENUE		
Rental revenue - gross potential	\$ 496,104	\$ 496,616
Less: vacancies	<u>(13,580)</u>	<u>(15,551)</u>
Net rental revenue	<u>482,524</u>	<u>481,065</u>
 FINANCIAL REVENUES		
Interest income - operations	1,374	299
Interest income - restricted deposits and reserves	4,341	2,957
Contributions	<u>617,051</u>	<u>-</u>
	<u>622,766</u>	<u>3,256</u>
 OTHER REVENUES		
Other revenue	<u>5,172</u>	<u>1,837</u>
	<u>5,172</u>	<u>1,837</u>
 TOTAL REVENUE	<u>1,110,462</u>	<u>486,158</u>
 EXPENSES		
Administrative expenses	138,535	57,351
Utilities expense	111,323	98,818
Operating and maintenance expenses	134,540	190,213
Taxes and insurance	77,170	60,387
Interest expense	72,218	112,086
Prepayment penalty on mortgage	162,009	-
Depreciation expense	<u>94,101</u>	<u>94,101</u>
 TOTAL EXPENSES	<u>789,896</u>	<u>612,956</u>
 CHANGE IN NET ASSETS	<u>320,566</u>	<u>(126,798)</u>
 NET DEFICIT, BEGINNING OF YEAR	<u>(942,368)</u>	<u>(815,570)</u>
 NET DEFICIT, END OF YEAR	<u><u>\$ (621,802)</u></u>	<u><u>\$ (942,368)</u></u>

The accompanying notes are an integral part of these financial statements.

HULING COVE HOUSING CORPORATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Rental receipts	\$ 482,939	\$ 483,127
Interest receipts	1,374	299
Other operating receipts	405,856	1,837
Total receipts	<u>890,169</u>	<u>485,263</u>
Cash disbursed		
Administrative expenses	138,535	55,306
Utilities expense	111,323	98,818
Operating and maintenance	75,107	179,681
Taxes and insurance	77,170	60,387
Interest expense	81,256	112,736
Prepayment penalty	162,009	-
Total cash disbursed	<u>645,400</u>	<u>506,928</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>244,769</u>	<u>(21,665)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of rental property and improvements	(1,132,491)	-
Decrease in restricted deposits and reserves	2,574	60,127
Interest earned on restricted assets	4,341	2,957
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(1,125,576)</u>	<u>63,084</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long term debt	2,296,160	39,567
Repayment of long term debt	(1,362,113)	(96,434)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>934,047</u>	<u>(56,867)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	53,240	(15,448)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>6,158</u>	<u>21,606</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 59,398</u>	<u>\$ 6,158</u>
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED		
(USED) BY OPERATING ACTIVITIES:		
Change in net assets	<u>\$ 320,566</u>	<u>\$ (126,798)</u>
Adjustments to reconcile change in net assets to net cash provided		
(used) by operating activities:		
Depreciation	94,101	94,101
Forgiveness of note payable	(216,367)	-
Interest earned on restricted deposits	(4,341)	(2,957)
(Increase) Decrease in assets:		
Accounts receivable	415	2,062
Prepaid expenses	-	8,660
Increase (Decrease) in liabilities:		
Accounts payable	57,222	2,045
Interest payable	(9,038)	(650)
Accrued payroll	293	(24)
Accrued vacation and sick pay	1,918	1,896
Total Adjustments	<u>(75,797)</u>	<u>105,133</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 244,769</u>	<u>\$ (21,665)</u>
SUPPLEMENTAL SCHEDULE OF NONCASH FINANCING ACTIVITY		
Forgiveness of note payable	<u>\$ 216,367</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

HULING COVE HOUSING CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE A ORGANIZATION

On March 16, 1978, Huling Cove Housing Corporation (the "Corporation") was created by filing a Certificate of Incorporation with the State of Delaware. The Corporation was organized to provide housing for low income elderly households (which includes persons that are 62 years of age or older, handicapped or disabled) receiving assistance under the Section 8 program established by the 1974 Federal Housing and Community Development Act. It has developed a 24-unit residence located in Lewes, Delaware.

Effective July 1, 2003, the Huling Cove Annex, Inc. was merged into the Huling Cove Housing Corporation. The Annex was organized to provide housing for low-income elderly households (which includes persons that are 62 years of age or older, handicapped or disabled) receiving assistance under the Section 8 program established by the 1974 Federal Housing Community Development Act. It has developed a 41-unit residence located in Lewes, Delaware.

The Corporation's income is exempt under the provisions of Section 115 of the Internal Revenue Code.

NOTE B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Corporation prepares its financial statements on the accrual basis of accounting.

Capital Assets

The Corporation's capitalization policy is as follows:

All land and buildings are capitalized, regardless of cost. Equipment purchases are capitalized when the cost of individual items is \$5,000 or more.

Capital assets of the Corporation are depreciated using the straight line method over the following estimated useful lives:

Building	27 years
Buildings and Land/Site Improvements	15 years
Equipment	5 years

Cash and Cash Equivalents

The Corporation's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments held by the Treasurer of the State of Delaware.

Investments held for the Corporation by the Treasurer of the State of Delaware are maintained in a common pool of funds for all participating state agencies and associated nonprofit associations. The pool is comprised of four categories of investments although a detailed

HULING COVE HOUSING CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

accounting by category is not maintained for each depositor. Only the total invested for each depositor is made available on a periodic basis. The Corporation's funds are maintained in the following four pools:

- (1) Cash Account
Objective - Liquidity
Maturity - Maximum maturity is one year.
- (2) Liquidity Account
Objective - Maximum yield and maintain safety of principal
Maturity - Maximum maturity is two years.
- (3) Reserve Cash (Intermediate) Account
Objective - Maximum yield and maintain safety of principal
Maturity - Maximum maturity is five years.
- (4) Endowment Accounts
Objective - To provide a long-term funding source
Maturity - Maximum maturity is 10 years.

The permissible types of investments for all these pools are as follows:

- U.S. Government securities
- Government agency securities
- Certificates of deposit, time deposits, and bankers acceptance
- Corporate debt instruments
- Repurchase agreements
- Reverse repurchase agreements
- Money market funds
- Canadian treasury bills
- Canadian agency securities

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE C CASH AND CASH EQUIVALENTS

At June 30, 2008 and 2007, the Corporation's cash and cash equivalents balance held with the State Treasurer's Office amounted to \$12,368 and \$4,591, respectively. Cash and cash equivalents are controlled by the personnel of the State Treasurer's Office in Dover, Delaware and any investment decisions are made by the State Treasurer's Office. The funds held by the State of Delaware Investment pool, an internal investment pool, are specifically identified for the

HULING COVE HOUSING CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE C CASH AND CASH EQUIVALENTS (continued)

Corporation, but the credit risk cannot be categorized for these funds. Credit risk for such investments depends on the financial stability of the State of Delaware.

At June 30, 2008, the reported amount of the Corporation's deposits not held with the State Treasurer's Office was \$47,030 and the bank balance was \$47,030. At June 30, 2007, the reported amount of the Corporation's deposits not held with the State Treasurer's Office was \$1,567 and the bank balance was \$1,567. All of the balance was covered by federal depository insurance.

NOTE D LONG-TERM DEBT

On March 7, 2008, the Corporation entered into a construction loan agreement in the amount of \$3,891,177 with the Delaware State Housing Authority. The proceeds of this loan were used to refinance their existing mortgages with the Delaware State Housing Authority and to provide additional capital for capital improvements to the Corporation's rental property. As of June 30, 2007 the balance of the two mortgages that were paid off were \$1,257,572. The loan does not bear interest during the construction period. Once construction is completed, the loan will convert into two permanent loans in the amount of \$1,800,000 (First loan) and \$2,091,177 (Second loan) for a combined total of \$3,891,177. The first loan will bear interest at 1% with amortization of principal over 30 years. Amortization of this loan is expected to start in fiscal year 2010. The second note will also bear interest at 1% with principal and interest payments deferred over 30 years. These notes will be collateralized by the rental property. The balance of this loan as of June 30, 2008 amounted to \$2,296,160.

In a previous fiscal year, the Corporation had entered into a note payable agreement with the Delaware State Housing Authority in the amount of \$216,367. In fiscal year 2008, the Authority relieved the Corporation of its responsibility to repay this obligation. Accordingly, this forgiveness of the note payable was recognized as income in fiscal year 2008.

NOTE E ESCROW DEPOSITS

In accordance with the regulatory agreement between Huling Cove Housing Corporation and the Delaware State Housing Authority, certain escrow accounts must be maintained with DSHA. The escrows consisted of the following:

	June 30	
	2008	2007
Insurance	\$ 18,013	\$ 17,501
Taxes	10,297	67
Residual receipts	15,835	49,081
Replacement reserve	25,634	5,704
TOTAL	<u>\$ 69,779</u>	<u>\$ 72,353</u>

HULING COVE HOUSING CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE F CAPITAL ASSETS

As of June 30, 2008 and 2007, capital assets consisted of the following:

	June 30	
	<u>2008</u>	<u>2007</u>
Land	\$ 127,000	\$ 127,000
Construction in progress	1,132,491	-
Building	2,540,714	2,540,714
Equipment	24,905	24,905
Accumulated depreciation	<u>(2,180,030)</u>	<u>(2,085,929)</u>
TOTAL	<u>\$1,645,080</u>	<u>\$ 606,690</u>

NOTE G RENTAL ASSISTANCE

The Corporation entered into a contract for Section 8 Housing Assistance Payments with the U.S. Department of Housing and Urban Development (HUD). Under the terms of this contract, HUD will disburse to the Corporation rental assistance payments on behalf of qualified tenants. Under the regulatory agreement, the Corporation may not increase rents charged to tenants without HUD approval.

NOTE H PENSION PLAN

The Delaware State Housing Authority maintains a contributory retirement plan, covering substantially all of its employees, which is a defined contribution pension plan. The Corporation's contribution to the plan was \$6,236 and \$5,219 for the years ended June 30, 2008 and 2007, respectively, equal to the required contribution to the plan.

NOTE I RELATED PARTY TRANSACTIONS

During the years ended June 30, 2008 and 2007, the Corporation was obligated under an agreement with the Delaware State Housing Authority for the management of its housing projects. Management fees of \$37,008 were paid to Delaware State Housing Authority for the year ended June 30, 2007.

For the year ended June 30, 2008, the Delaware State Housing Authority waived the requirement to pay the management fee.

During the years ended June 30, 2008 and 2007, the Corporation was indebted to the Delaware State Housing Authority under note and mortgage agreements. See footnote D for additional information.

Huling Cove Housing Corporation is closely associated with, and related to, the Delaware State Housing Authority.

The Delaware State Housing Authority (the "Authority") was created in 1968 by an act of the General Assembly of the State of Delaware (the "State"). The Authority, which is a public corporation, was originally established as the Department of Housing. It was organized under the Department of Community Affairs in 1970 and under the Delaware Economic Development Office in 1987. The Authority was established in 1998 as an independent Authority in the Executive Department, reporting directly to the Governor of the State, institutionalizing the role of affordable housing as a key aspect of State policy.

HULING COVE HOUSING CORPORATION
NOTES TO FINANCIAL STATEMENTS

NOTE I RELATED PARTY TRANSACTIONS (continued)

The Authority is authorized, among other things, to (1) make mortgage, construction and other loans to not-for-profit and limited-profit housing sponsors, (2) make loans to mortgage lenders, requiring the proceeds thereof to be used for making new qualified residential mortgage loans, (3) purchase qualified mortgage loans from mortgage lenders, and (4) apply for and receive assistance and subsidies under programs from the Federal government and others.

The staff of the Delaware State Housing Authority performs all management and accounting functions for Huling Cove Housing Corporation. The general ledger and financial statements of Huling Cove Housing Corporation are maintained and prepared by the Delaware State Housing Authority, using a computer system that also performs these functions for other housing corporations.

NOTE J CONCENTRATION OF REVENUE

Approximately 26 and 59 percent of Huling Cove Housing Corporation's combined revenues for the years ended June 30, 2008 and 2007, respectively, is provided by Section 8 Housing Assistance Payments from the U.S. Department of Housing and Urban Development passed through the Delaware State Housing Authority. For the year ended June 30, 2008, the Delaware State Housing Authority contributed \$617,051 to the Corporation in the form of a cash contribution of \$400,684 and debt forgiveness in the amount of \$216,387. This contribution of \$617,051 made up 56% of the Corporation's combined revenues for the year ended June 30, 2008.

NOTE K COMMITMENTS

As of June 30, 2008, the Corporation had the following construction contract commitments:

<u>Amount of Contracts</u>	<u>Completed through 6/30/08</u>	<u>Commitment</u>
\$2,071,639	\$1,072,673	\$998,966

SUPPLEMENTAL INFORMATION

HULING COVE HOUSING CORPORATION

SUPPLEMENTAL INFORMATION

ADDITIONAL DATA REQUIRED BY DELAWARE STATE HOUSING AUTHORITY

JUNE 30, 2008

RESERVE FOR REPLACEMENTS

In accordance with the regulatory agreement, a monthly payment is required to fund reserve for replacements. This payment is made in cash and is on deposit with the Delaware State Housing Authority, the mortgagee. Transactions are as follows:

BEGINNING BALANCE	\$ 5,704
Interest Income	675
Monthly Deposits	20,431
DSHA Approved Disbursements	<u>(1,176)</u>
ENDING BALANCE CASH	<u>\$ 25,634</u>

RESIDUAL RECEIPTS RESERVE

The mortgagee, Delaware State Housing Authority, has periodically made deposits and disbursements to and from the reserve on behalf of the project. Transactions are as follows:

BEGINNING BALANCE	\$ 49,081
Interest Income	3,666
Deposits	-
DSHA Approved Disbursements	<u>(36,912)</u>
ENDING BALANCE CASH	<u>\$ 15,835</u>

INSURANCE ESCROW

In accordance with the regulatory agreement, a monthly payment is required to fund an insurance reserve. This payment is made in cash and is on deposit with the Delaware State Housing Authority, the mortgagee. Transactions are as follows:

BEGINNING BALANCE	\$ 17,501
Interest Income	-
Monthly deposits	15,600
DSHA Approved Disbursements	<u>(15,088)</u>
ENDING BALANCE CASH	<u>\$ 18,013</u>

HULING COVE HOUSING CORPORATION

SUPPLEMENTAL INFORMATION

ADDITIONAL DATA REQUIRED BY DELAWARE STATE HOUSING AUTHORITY

JUNE 30, 2008

TAX ESCROW

In accordance with the regulatory agreement, a reserve for taxes has been established and is on deposit with Delaware State Housing Authority. Transactions are as follows:

BEGINNING BALANCE	\$ 67
Interest Income	-
Deposits	10,230
DSHA Approved Disbursements	-
ENDING BALANCE CASH	<u>\$ 10,297</u>

CAPITAL ASSETS

	Balance July 1, 2007	Additions (Deletions) During Year	Balance June 30, 2008
CHANGES IN PROPERTY AND EQUIPMENT:			
Land	\$ 127,000	\$ -	\$ 127,000
Construction in progress	-	1,132,491	1,132,491
Building	2,540,714	-	2,540,714
Equipment	24,905	-	24,905
Accumulated depreciation	<u>(2,085,929)</u>	<u>(94,101)</u>	<u>(2,180,030)</u>
TOTALS	<u>\$ 606,690</u>	<u>\$1,038,390</u>	<u>\$ 1,645,080</u>

DELINQUENT TENANT ACCOUNTS RECEIVABLE

Delinquent 0 -30 days	<u>\$ 56</u>
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SUMMARIZED ACCOUNTS PAYABLE

Payable within 30 days	\$ 21,565
Payable in more than 60 days	<u>50,000</u>
	<u>\$ 71,565</u>

HULING COVE HOUSING CORPORATION
SUPPLEMENTAL INFORMATION
ADDITIONAL DATA REQUIRED BY DELAWARE STATE HOUSING AUTHORITY
JUNE 30, 2008

LONG TERM DEBT

Refer to note D.

BUDGET VS ACTUAL

Below is a summary of the significant changes from budget to actual for the year ended June 30, 2008.

Contributions - During fiscal year 2008, the Delaware State Housing Authority provided a cash contribution of \$400,684 and forgave a note payable in the amount of \$216,367. These two contributions were not expected.

Management Fee - The Delaware State Housing Authority waived the requirement to pay the management fee in fiscal year 2008.

Legal Expenses - Actual amounts incurred represent amounts spent for legal fees related to the new borrowing from the Delaware State Housing Authority.

Relocation Costs - Actual amounts incurred represent amounts spent for costs to relocate tenants related to properties being rehabilitated.

Depreciation Expense - Budgeted amounts reported to the Delaware State Housing Authority are based on projected cash flows and thus do not require a budgeted amount for depreciation expense.

Interest Expense - Budgeted amounts reported to the Delaware State Housing Authority include both the principal and interest of the mortgage payable.

Prepayment Penalty on Mortgage - Actual amount incurred represent penalties paid to the Delaware State Housing Authority for the prepayment of their mortgages.

ADDITIONAL INFORMATION REQUIRED

Barbacane, Thornton & Company, 202 Bancroft Building, 3411 Silverside Road, Wilmington, DE 19810
Pamela W. Baker, CPA, Partner (302) 478-8940

DSHA STATEMENT OF PROFIT AND LOSS
PROJECT NAME: Huling Cove Housing Corporation
PROJECT NUMBER: DE26H004010 and DE26H00435
YEAR ENDED: June 30, 2008

Part I	Description of Account	Acct. No.	Amount*	
RENTAL INCOME 5100	Rent Revenue - Gross Potential	5120	206,888	
	Tenant Assistance Payments	5121	289,216	
	Rent Revenue - Stores and Commercial	5140	-	
	Garage and Parking Space	5170	-	
	Flexible Subsidy Revenue	5180	-	
	Miscellaneous Rent Revenue	5190	-	
	Excess Rent	5191	-	
	Rent Revenue - Insurance	5192	-	
	Special Claims Revenue	5193	-	
	Retained Excess Income	5194	-	
	Lease Revenue (Nursing Homes)	5195	-	
	Total Rent Revenue			496,104
VACANCIES 5200	Apartments	5220	13,580	
	Stores and Commercial	5240	-	
	Rental Concessions	5250	-	
	Garage and Parking Space	5270	-	
	Miscellaneous	5290	-	
	Total Vacancies			13,580
	Net Rent Revenue (Rent Revenue less Vacancies)			482,524
FINANCIAL REVENUE 5400	Nursing Homes / Assisted Living / Board & Care / Other Elderly Care / Coop / and Other Revenue	5300	-	
	Members Group Life Insurance Expense (Coops)	5320	-	
	Financial Revenue - Project Operations	5410	1,374	
	Revenue from Investments - Residual Receipts	5430	3,666	
	Revenue from Investments - Replacement Reserve	5440	675	
	Expiration of Gift Donor Restrictions (Non-Profits)	5460	-	
	Gifts (Non-Profits)	5470	617,051	
	Revenue from Investments - Miscellaneous	5490	-	
	Total Financial Revenue			622,766
OTHER REVENUE 5900	Laundry and Vending Revenue	5910	-	
	Tenant Charges (NSF and Late Charges)	5920	5	
	Damages and Cleaning Fees	5930	-	
	Forfeited Tenant Security Deposits	5940	-	
	Interest Reduction Payments Revenue	5945	-	
	Miscellaneous Revenue	5990	5,167	
	Total Other Revenue			5,172
	Total Revenue			1,110,462

ADMINISTRATIVE EXPENSES 6200 6300	Conventions and Meetings	6203	-	
	Management Consultants	6204	-	
	Advertising and Marketing	6210	887	
	Other Renting Expenses	6250	-	
	Office Salaries	6310	-	
	Office Expenses	6311	-	
	Office or Model Apartment Rent	6312	-	
	Management Fee	6320	-	
	Manager or Superintendent Salaries	6330	-	
	Administrative Rent Free Unit	6331	-	
	Legal Expenses - Project	6340	20,718	
	Auditing Expense - Project	6350	6,710	
	Bookkeeping Fees / Accounting Services	6351	-	
	Telephone and Answering Services	6360	3,562	
	Bad Debt Expense	6370	532	
	Relocation Costs	6380	96,312	
	Miscellaneous Administrative Expenses	6390	9,814	
	Total Administrative Expenses			
				138,535
UTILITIES EXPENSE 6400	Fuel Oil / Coal	6420	-	
	Electricity (Lights and misc. power)	6450	89,503	
	Water	6451	21,820	
	Gas	6452	-	
	Sewer	6453	-	
	Total Utilities Expense			111,323
OPERATING AND MAINTENANCE 6500	Janitor and Cleaning Payroll	6510	88,384	
	Janitorial Supplies	6515	-	
	Janitorial Cleaning Contracts	6517	-	
	Exterminating Contract/Payroll	6519	1,927	
	Exterminating Supplies	6520	-	
	Operating and Maintenance Rent Free Unit	6521	-	
	Garbage and Trash Removal	6525	-	
	Security Payroll / Contract	6530	-	
	Security Rent Free Unit	6531	-	
	Grounds Payroll	6535	-	
	Grounds Supplies	6536	-	
	Grounds Contract	6537	-	
	Repairs Payroll	6540	-	
	Repairs Material	6541	7,836	
	Repairs Contracts	6542	28,915	
	Elevator Maintenance	6545	-	
	Heating / Cooling / Repairs and Maintenance	6546	-	
	Swimming Pool Maintenance/Contract	6547	-	
	Snow Removal	6548	-	
	Decorating Payroll/Contract	6560	-	
	Decorating Supplies	6561	-	
	Vehicle and Maintenance Equipment Operation	6570	-	
	Miscellaneous Operating and Maintenance Expense	6590	7,478	
	Total Operating and Maintenance Expense			134,540

TAXES AND INSURANCE 6700	Real Estate Taxes	6710	-	
	Payroll Taxes (FICA)(Project's Share)	6711	-	
	Property and Liability Insurance (Hazard)	6720	22,082	
	Fidelity Bond Insurance	6721	-	
	Workmen's Compensation	6722	-	
	Health Insurance and other Employee Benefits	6723	35,452	
	Miscellaneous Taxes, Licenses, Permits and Insurance	6790	19,636	
	Total Taxes and Insurance			77,170
	Total Operating Expenses			461,568
FINANCIAL EXPENSES 6800	Interest on Bonds Payable	6819	-	
	Interest on Mortgage Payable	6820	72,218	
	Interest on Notes Payable (Long Term)	6830	-	
	Interest on Notes Payable (Short Term)	6840	-	
	Mortgage Insurance Premium / Service Charge	6850	-	
	Miscellaneous Financial Expenses	6890	162,009	
	Total Financial Expenses			234,227
	Nursing Homes / Assisted Living / Board & Care / Other Elderly Care / Coop / and Other Expenses	6900	-	
	Total Cost of Operations Before Depreciation			695,795
DEPRECIATION 6600	Depreciation Expenses	6600	94,101	
	Amortization Expense	6610	-	
	Total Depreciation			94,101
CORPORATE OR MORTGAGOR ENTITY EXPENSES 7100	Entity Revenue	7105	-	
	Officers Salaries	7110	-	
	Legal Expenses	7120	-	
	Federal, State, And Other Income Taxes	7130	-	
	Interest Income	7140	-	
	Interest on Notes Payable	7141	-	
	Interest on Mortgage Payable	7142	-	
	Other Expense	7190	-	
	Net Entity Expenses			-
	Profit or Loss (Net Income or Loss)			320,566

Part II*

1. Total principal payments required under the mortgage, even if payments under a Workout Agreement are less or more than those required under the mortgage.	\$ 26,934
2. Replacement Reserve deposits required by the Regulatory Agreement or Amendments thereto, even if payments may be temporarily suspended or waived.	\$ 20,431
3. Replacement or Painting reserve releases which are included as expense items on this Profit and Loss Statement.	\$ 1,176
4. Project Improvement Reserve Releases under the Flexible Subsidy Program that are included as expense items on this Profit and Loss Statement.	\$ -

*** Part II - Must be completed for all financial statements**

DELAWARE STATE HOUSING AUTHORITY
COMPUTATION OF SURPLUS CASH AND DISTRIBUTIONS

Property Name	Fiscal Period Ending	DSHA/HDF Number
Huling Cove Housing Corporation	June 30, 2008	DE26H004010 and DE26H00435

PART A. - COMPUTE SURPLUS CASH

Section I - Cash

1. Cash	\$ 78,579	
2. Tenant Subsidy Vouchers due for Period Covered by Financial Statements	\$ -	
3. Other (Describe)	\$ -	
(A) Total Cash (Add Lines 1, 2, & 3)		\$ 78,579

Section II. - Current Obligations

4. Accrued Mortgage Interest Payables	\$ -	
5. Delinquent Mortgage Principal Payments	\$ -	
6. Delinquent Deposits to Reserve for Replacements	\$ -	
7. Accounts Payables (due within 30 days)	\$ 71,565	
8. Loans and Notes Payables (due within 30 days)	\$ -	
9. Deficient Tax Insurance/Mortgage Insurance Escrow	\$ -	
10. Accrued Expenses (not escrowed)	\$ 4,009	
11. Prepaid Rents	\$ -	
12. Tenant Security Deposits Liability	\$ 19,181	
13. Other (Describe) Accounts Payable Construction	\$ -	
(B) Total Liabilities		\$ 94,755
(C) Surplus Cash (Deficiency)		\$ (16,176)
Line (A) Minus Line (B)		

PART B - COMPUTE OWNERS DISTRIBUTIONS & REQUIRED HDF LOAN BALANCE REDUCTION

1. Surplus Cash	\$ -
2. a. Beginning Balance: Accrued Distributions from Prior Year(s) Unpaid	\$ -
Annual Distribution Earned During Fiscal Period Covered	\$ -
Annual Distribution Paid During Audit Year Against Audit	\$ -
Annual Distribution Paid During Audit Year Against Prior	\$ -
b. Ending Balance: Distributions Unpaid From Audit Year and Prior Years(s) at Audit Year End (Amount Carried on Balance Sheet	\$ -
3. Amount available for distribution (the lesser of Line 1 or Line 2b)	\$ -
4. Amount due DSHA to be applied to DSHA Permanent Loan or deposited in to residual receipts (Line 1 minus Line 3)	\$ -

Prepared By: _____
Date

Reviewed By: Barbara Thornton, Comptroller
Date 9/22/07

HULING COVE HOUSING CORPORATION
COMPARISON OF BUDGET TO ACTUAL SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2008

	Budgeted Amounts	Actual Amounts	Variance with Budget Positive (Negative)
REVENUES			
Rent revenue - gross potential	\$ 500,604	\$ 496,104	\$ (4,500)
Vacancies	(7,509)	(13,580)	(6,071)
Interest income	1,091	5,715	4,624
Contributions	-	617,051	617,051
Other revenue	3,217	5,172	1,955
TOTAL REVENUES	<u>497,403</u>	<u>1,110,462</u>	<u>613,059</u>
EXPENSES			
Administrative expenses:			
Advertising and marketing	500	887	(387)
Management fee	39,144	-	39,144
Legal expenses	-	20,718	(20,718)
Auditing expense	5,835	6,710	(875)
Telephone and answering	3,517	3,562	(45)
Bad debt expense	-	532	(532)
Relocation costs	-	96,312	(96,312)
Miscellaneous administrative expenses	8,753	9,814	(1,061)
Utilities expense:			
Electricity	74,672	89,503	(14,831)
Water	24,602	21,820	2,782
Operating and maintenance expenses:			
Janitor payroll	86,264	88,384	(2,120)
Janitor supplies	1,223	-	1,223
Exterminating contract/payroll	2,544	1,927	617
Repairs material and contracts	35,228	36,751	(1,523)
Snow removal	620	-	620
Miscellaneous operating and maintenance expenses	-	7,478	(7,478)
Taxes and insurance:			
Property and liability insurance	14,276	22,082	(7,806)
Health insurance and other employee benefits	32,961	35,452	(2,491)
Miscellaneous taxes, licenses, permits and insurance	12,400	19,636	(7,236)
Financial Expenses:			
Interest expense	209,169	72,218	136,951
Prepayment penalty on mortgage	-	162,009	(162,009)
Depreciation expense	-	94,101	(94,101)
TOTAL EXPENSES	<u>551,708</u>	<u>789,896</u>	<u>(238,188)</u>
EXCESS OF REVENUES OVER EXPENSES	<u>\$ (54,305)</u>	<u>\$ 320,566</u>	<u>\$ 374,871</u>

IX. AUDIT INTERNAL CONTROL/COMPLIANCE CHECKLIST

Property Name	Fiscal Period Ending	DSHA/HDF Number
Huling Cove Housing Corporation	June 30, 2008	DE26H004010 and DE26H00435

Please answer the questions below. All answers should be based upon a review of procedures and/or actual test transactions. Any question answered "no" may indicate of an adverse condition which should be described in the audit report.

		Yes, No or N/A
1.	<u>Mortgage Status</u>	
	A. Are payments on the mortgage(s) current?	<u>Yes</u>
	B. Has the mortgagor/grantee complied with the terms and conditions of the mortgage, modification, Regulatory, forbearance and/or workout agreement?	<u>Yes</u>
	C. If the workout agreement , Regulatory Agreement or subsequent correspondence requires periodic deposits of surplus cash, were such deposits made within sixty days after the end of the specified period?	<u>N/A</u>
2.	<u>Books and Records</u>	
	A. Are a completed set of books and records maintained in a satisfactory manner?	<u>Yes</u>
	B. Does the mortgagor/grantee make frequent postings (at least monthly) to the ledger accounts?	<u>Yes</u>
3	<u>Cash Activities</u>	
	A. Are the cash receipts deposited in an account in the name of the development/program?	<u>Yes</u>
	B. Are all account balances fully federally insured?	<u>Yes</u>
	C. Are security deposits kept in an account separate and apart from all other funds of the development?	<u>Yes</u>
	D. Are security deposits kept in an interest bearing account and is the interest returned to the tenant or applied to a tenant balance?	<u>Yes</u>
	E. Does the balance in the security deposit account equal or exceed the liability? Note: The liability difference should include the accrued interest payable.	<u>Yes</u>
		Yes, No or N/A
	F. Does the owner and/or the management agent have a fidelity bond in an amount at least equal to potential collections for two months which provides coverage for all employees handling cash?	<u>Yes</u>

G. Did cash disbursements exclude payments for items listed below:

- | | |
|--|------------|
| (1) Legal expenses incurred in the sale of partnership interest or in connection with permanent closing? | <u>Yes</u> |
| (2) The fee for the preparation of a partner's , shareholder's or individual's federal, state or local income tax returns? | <u>Yes</u> |
| (3) Expenses for advice to an owner on tax consequences of foreclosure? | <u>Yes</u> |
| (4) Reimbursement to the owners or affiliates for prior advances, capital expenditures and/or development acquisition costs while the mortgage/grant is in default, under modification, forbearance or provisional workout arrangements? | <u>Yes</u> |
| (5) Were all disbursements from the operating account(s) made exclusively for operation or obligations of the development? | <u>Yes</u> |
| (6) Were letter of credit fees paid for out of operations or obligations of the development? | <u>Yes</u> |

H. Were distributions made to, or on behalf of, the owners limited to those authorized by the Regulatory Agreement or the distributions in accordance with prior written approval of DSHA while the development was in a surplus cash position?

N/A

- | | |
|---|------------|
| (1) Developments operating under a modification or forbearance agreement and/or a provisional workout arrangement are not in a "surplus cash" position for distributions. | <u>N/A</u> |
|---|------------|

I. Were residual receipts deposited with the mortgagee within thirty days after mortgagee request for such deposit?
(HUD Section 8/202/236 projects only)

N/A

Yes, No
or N/A

J. Were excess rental collections in Section 236 developments remitted to HUD each month?

N/A

K. Does the mortgagor/grantee have a formal rent collection policy and is it posted?

Yes

L. Is the collection policy uniformly enforced?

Yes

M. Do tenants' accounts receivables consist exclusively of amounts due from those other than employees?

Yes

N.	Is there a formal procedure to write-off bad debts?	<u>Yes</u>
O.	Have write-offs of tenant's accounts been less than one percent of the gross rent?	<u>Yes</u>
P.	Are accounts receivables other than tenants' receivables composed exclusively of amounts due from unrelated persons or firms?	<u>N/A</u>
Q.	Were there indications that payments for services, supplies or materials were substantially in excess of amounts normally paid for such services, etc?	<u>No</u>
R.	Were accounts payable remitted in a timely manner so as to not incur late charges/penalties?	<u>Yes</u>
S.	Has the mortgagee made the required deposits to the mortgage escrow accounts as required by the loan documents?	<u>Yes</u>
4.	<u>Management Compensation</u>	
A.	Was compensation to the management agent limited to the amounts prescribed in the Management Agreement?	<u>N/A</u>
B.	Were development expenses paid in accordance with the management agreement (no expenses that management agent are required to pay charged to the development)?	<u>N/A</u>
5.	<u>Rents and Occupancy</u>	
A.	On nonsubsidized tax credit developments, is the gross potential rental income from apartments equal to or less than that shown on the most recent rent schedule?	<u>N/A</u>
B.	On subsidized developments, are dwelling unit rents the same as those approved by DSHA/ HUD/RD on the most recent rent schedule?	<u>Yes</u>
		Yes, No or N/A
6.	<u>RD/HUD Subsidy Payments (Section 8/515 developments only)</u>	
A.	Were the amounts requested from DSHA/HUD/RD adequately supported by the accounting records?	<u>N/A</u>
B.	Were subsidy receipts recorded in the proper accounts?	<u>N/A</u>
C.	Utility allowance payments were paid to residents within five days of receipt from DSHA/HUD/RD and in an amount equal to the corresponding utility allowance subsidy amounts received?	<u>N/A</u>

ADDITIONAL REPORTS

REPORT ON INTERNAL
CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

September 19, 2008

Board of Directors
Huling Cove Housing Corporation
Lewes, Delaware

We have audited the financial statements of Huling Cove Housing Corporation as of and for the year ended June 30, 2008 and have issued our report thereon dated September 19, 2008.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Huling Cove Housing Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Huling Cove Housing Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Huling Cove Housing Corporation's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Huling Cove Housing Corporation's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Huling Cove Housing Corporation's financial statements that is more than inconsequential will not be prevented or detected by the Huling Cove Housing Corporation's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Huling Cove Housing Corporation's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Board of Directors
Huling Cove Housing Corporation
Lewes, Delaware

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Huling Cove Housing Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, the U.S. Department of Housing and Urban Development, Office of the Governor, Office of the Controller General, Office of the Attorney General, Office of the Budget, and Office of Auditor of Accounts; and is not intended to be and should not be used by anyone other than these specified parties.


BARBACANE, THORNTON & COMPANY